GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

DISTRICT OF COLUMBIA

Independent Auditors' Report on
Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on
An Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
September 30, 2013

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 14-1-04MA **March 11, 2014**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

March 11, 2014

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year 2013, KPMG LLP submitted the enclosed final Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (OIG No. 14-1-04MA).

This report identifies four significant deficiencies and disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is important enough to merit attention by those charged with governance. The significant deficiencies identified in the report are weaknesses in the following areas: (1) General Information Technology Controls; (2) Cash and Investments; (3) Capital Assets; and (4) Procurement and Disbursement Controls and Non-Compliance with Laws and Regulations.

I am pleased to report progress relative to the financial management of the District of Columbia and, for the fifth consecutive year, the audit of the City's financial statements has revealed no material weaknesses.

While the Office of the Inspector General will continue to assess District agencies in pursuing corrective actions, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. This Office will work with managers, as appropriate, to help them monitor the implementation of recommendations.

If you have questions or need additional information, please contact me or Ronald W. King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

CJW/ws

Enclosure

cc: See Distribution List

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GOVERNMENT OF THE DISTRICT OF COLUMBIA

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

September 30, 2013

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the financial statements of the governmental activities, the business-type activities, the discretely presented component units, the budgetary comparison schedule, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia (the District) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2014. The financial statements of the District of Columbia Housing Financing Agency, a discretely presented component unit of the District, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. See findings 2013-01 through 2013-04 in the accompanying schedule of findings and responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in finding 2013-04 in the accompanying schedule of findings and responses to this report.

District's Responses to the Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

January 30, 2014

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Schedule of Findings and Responses

Finding 2013-01 – Weaknesses in the District's General Information Technology Controls

Background:

General Information Technology Controls (GITCs) provide the foundation for a well-controlled technology environment that supports the consistent processing and reporting of operational and financial data in accordance with management's directives. Our audit includes an assessment of selected GITCs in four (4) key control areas: Access to Programs and Data, Program Changes, Program Development[1], and Computer Operations. During our assessment, we noted that, while the District made progress and remediated certain GITC findings identified during our prior year audit, pervasive GITC-related issues continue to exist within Access to Programs and Data and Program Changes.

Due to the deficiencies noted within the Banner, Medical Information Technology, Inc (MEDITECH), Time Attendance and Court Information System (TACIS), Automated Client Eligibility Determination System (ACEDS), PeopleSoft, Procurement Automated Support System (PASS), and the Computer Assisted Mass Appraisal (CAMA) System GITC environments that were identified throughout our audit fieldwork, which have ultimately led to one or more ineffective GITC objectives for these environments, we were not able to rely on automated controls or system-generated reports supported by these application environments.

In some cases, the District has already remediated several GITC deficiencies during fiscal year (FY) 2013. However, as these remediation efforts did not take place until FY 2013 was well under way, the conditions continued to exist during part of the fiscal year and thus are included in this year's report.

Our FY 2013 findings included the following:

Access to Programs and Data

Conditions:

1. Failure to consistently restrict privileged and general user access to key financial applications, databases, and servers in accordance with employee job responsibilities or segregation of duties considerations.

2. Inconsistent performance and documentation of both physical and logical user access administration activities, including the approval of new user access and access changes, periodic review of user access rights, including whether user access is commensurate with job responsibilities, and timely removal of user access upon employee termination.

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[1] There were no significant system development projects with financial statement impact in 2013. As such, Program Development was not tested.

3. Use of generic accounts to perform system administration or end user functions within key applications without adequate monitoring controls over such activities.

4. In August 2012, the Office of the Chief Technology Officer (OCTO) implemented a revised password policy, which required the enforcement of strong password settings on all environments under the purview of the policy. However, in reviewing password settings configured on these environments during FY 2013 testing, it was noted that some settings deviated from the OCTO Password Policy. These settings were later remediated between August and October 2013. Additionally, failure to consistently implement the Office of Chief Financial Officer (OCFO) / Office of Chief Information Officer (OCIO) Password Policy was also noted.

Program Changes

Conditions:

1. Failure to institute well-designed program change policies that establish procedural and documentation requirements for authorizing, developing, testing, and approving changes to key financial applications and related infrastructure software[2] in the production environment.

2. Inconsistent adherence to established program change management procedures, including instances in which changes made to the system were not approved, tested or documented appropriately per the established procedures.

3. Failure to consistently restrict developer access to the production environments of key financial applications in accordance with segregation of duties considerations or, if not feasible, implement independent monitoring controls to help ensure changes applied to the production environment are authorized.

[2] Infrastructure changes refer to software changes and updates applied to underlying operating systems and databases supporting the key financial applications.

The table below summarizes the key financial applications tested as part of the FY 2013 Financial Statement Audit. It includes findings from all applications, including those not specifically mentioned in the significant deficiency above.

Table 1: Summary of Applications Impacted by the Findings

GITC Area	Access to Programs and Data				Program Changes				Computer Operations			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Central and Overarching Applications												
Automated Claims Eligibility Determination System (ACEDS)												
Computer-Assisted Mass Appraisal System (CAMA)												
CFO$olve												
iNovah												
PeopleSoft												
Procurement Automated Support System (PASS)												
System of Accounting and Reporting (SOAR)												
Time, Attendance, and Court Information System (TACIS)												
Tax Administration System (TAS)												
Department of Employment Services												
Budget and Reporting Tracking System (BARTS)												
District Online Compensation System (DOCS)												
District Unemployment Tax Administration System (DUTAS)												
United Medical Center												
Meditech Health Care Information System (HCIS)												
University of the District of Columbia												
Banner												

+ CFO$olve was added into scope in FY 2013. The system had not previously been tested.

* For UMC, new controls were tested in FY 2013. While new findings were added because of the additional scope, there were FY 2012 findings that were also remediated.

GOVERNMENT OF THE DISTRICT OF COLUMBIA

<u>Schedule of Findings and Responses</u>

Application In-Scope	
	Objective Deemed Ineffective
	Findings Noted But Objective Deemed Effective
	No Findings Noted in Area
	Area Not Fully Tested

Application Not In-Scope	
	New Findings Identified
	PY NFRs Remain
	All PY NFRs Remediated

Criteria:

Our internal framework for identifying and testing GITCs can be mapped to several commonly accepted information technology risk and control frameworks including those published by the National Institute of Standards and Technology (NIST), Information Systems Audit and Control Association (ISACA), and the International Standards Organization (ISO). For purposes of our reporting of findings for the District of Columbia Government, we have provided below relevant criteria.

1. The Federal Information Security Management Act (FISMA), passed as part of the Electronic Government Act of 2002, mandates that Federal entities maintain IT security programs in accordance with NIST. The following NIST criteria were considered:
   a. NIST SP 800-12, An Introduction to Computer Security: The NIST Handbook, October 1995;
   b. NIST SP 800-53, Revision 3, Recommended Security Controls for Federal Information Systems and Organizations, August 2009;
   c. NIST SP 800-64, Security Considerations in the System Development Life Cycle, October 2008; and
   d. NIST SP 800-14, Generally Accepted Principles and Practices for Securing Information Technology, September 1996.
2. The Information Systems Audit Control Association (ISACA) Control Objectives for Information and related Technology (COBIT®) 4.1, 2007.

Cause/Effect:

The findings highlighted above include weaknesses in both the design and operating effectiveness of controls considered relevant to the Access to Programs and Data and Program Changes areas. Although management has made progress remediating previous findings, most notably within Computer Operations, additional improvements in formalizing key GITC processes and creating an effective monitoring function are needed. The existence of these findings increases the risk that unauthorized changes applied to key financial applications and the data they process adversely affect application processing and data integrity and, as a result, may materially impact the financial statements. Additionally, the existence of these findings impacts the reliability of key application reports and the ability to rely upon automated, configurable controls embedded within key financial applications.

Recommendations:

We noted that management did remediate several control deficiencies from the prior year. There were 37 findings documented in FY 2012. Of them:

- 1 represented a finding that had been remediated during FY 2012 (as part of remediation efforts for FY 2011 findings);
- 13 were remediated during FY 2013; and,
- 6 were partially remediated during FY 2013.

We recommend that management continue to perform the remediated control activities put in place. Further, we recommend that management monitor the effectiveness of these controls on a regular and periodic basis going-forward.

To the extent the findings are not remediated, we recommend the following:

- Related to Access to Programs and Data controls, we recommend that management:

  a. Assess and update or, as applicable, develop and document access management policies and procedures for production applications and underlying infrastructure systems. These policies and procedures should address requirements for clearly documenting user access requests and supervisory authorizations, periodic reviews of the appropriateness of user access by agency business management, timely communication of employee separations/transfers, and disablement/removal of the related user access. Management should formally communicate policies and procedures to control owners and performers. Further, management should institute a formalized process to monitor adherence to policies and procedures related to key controls and, as performance deviations are identified, follow up as appropriate.

  b. Develop and implement controls that establish organizational and logical segregation between program development roles, production administration roles, and business end user roles among different individuals or, independently performed monitoring of the activities of users provided with conflicting system access over the activities of the developers (and other individuals) with administrative access that require the documentation of monitoring activities as well as follow up on any suspicious behavior within the system.

  c. Restrict the use of generic IDs or, if such access is required, implement independent monitoring of the activities performed using generic IDs.

d. Formally document and consistently adhere to a physical access management policy and procedures for all server rooms. We recommend that these include, at a minimum, procedural and documentary requirements for:

   i. Requesting and approving physical access;
   ii. Timely disablement/removal of physical access rights during instances of employee separations; and
   iii. Performing periodic reviews of access in consideration of users' ongoing need to retain physical access, and the modification of any updates required as a result of inappropriate access identified during the review process.

e. Consistently implement documented password policies across all production applications and underlying infrastructure systems.

- Related to Program Change controls, we recommend that management:

a. Develop and implement change management processes and controls that establish one or more of the following:

   i. Organizational and logical segregation of program development roles from production system and database administration roles among different individuals; and
   ii. Implementation of one or more independently operated monitoring controls over the activities of the developers (and other individuals) with administrative access that require the documentation of monitoring activities as well as follow up on any suspicious behavior within the system. Documentation of these monitoring controls should be maintained and include sign-off of the review as well as notations as to the appropriateness of the actions taken by the developers within the database. Further, any suspicious activity, such as modifications to functionality or data without corresponding change request approvals, should be followed-up upon, as necessary.

b. Consistently adhere to established program change management procedures, including approval, testing, and documentation.

c. Configure settings or implement monitoring tools to log changes made to application functionality, including all configuration changes.

These procedures should be provided to and discussed with the personnel responsible for enforcing the control activity. Further, management should monitor the personnel responsible for enforcing the control activity periodically.

Management Response:

The District concurs with the findings as reported by the auditors and acknowledges that there are control deficiencies in the area of general information technology. Over the course of the last several years, the District has developed a comprehensive remediation plan that is designed to address and resolve audit findings related to the District's GITC. Many of the planned corrective actions have been fully implemented and as a result, improvements have been made which have strengthened internal controls and enhanced operational efficiency. Nevertheless, the District recognizes that certain planned corrective actions require more time for full implementation. Therefore, consistent with the current remediation plan, the District will continue in its efforts to implement measures designed to fully resolve weaknesses in controls as reported by the independent auditors. In so doing, as part of that process, we will also incorporate the recommendations made by the independent auditors.

Finding 2013-02 – Weaknesses in the District's Financial Reporting for Cash and Investments

Condition:

During our (FY 2013 testwork over the bank account management process, we noted that the District has begun a clean-up effort to remove all invalid Bank IDs (BIDs) and related balances from the general ledger, to address our prior year finding. However, the remediation effort was not fully completed during FY 2013, and the following conditions were identified:

- We noted that for 26 of 402 account balances confirmed with the financial institution, the balance recorded in the general ledger was not accurate. This resulted in an aggregate overstatement of $18,791,266 to Cash and Cash Equivalents and Investments balances recorded in the District's financial statements as of September 30, 2013. Specifically, we noted the following:

    - For 11 of 26 reconciliations tested, we identified downward adjustments to be recorded to the general ledger for $9,250,543. However, we noted the adjustments were not recorded timely, within 60 days subsequent to year-end;

    - For 12 of 26 reconciliations tested, we identified upward adjustments to be recorded to the general ledger for $9,251,193. However, we noted the adjustments were not recorded timely, within 60 days subsequent to year-end;

    - For 1 of 26 reconciliations tested, the District determined an adjustment to the general ledger was booked twice in error, thus resulting in an overstatement of cash in the amount of $14,967,588, which was not corrected by January 10, 2014 (over 100 days subsequent to year-end). The District recorded an adjustment to correct the error after it was brought to the District's attention as a result of our audit;

  - For 1 of 26 reconciliations tested, support could not be provided as the BID was managed by the Lottery and Games Fund. Upon further review, we determined the account balance was reported in both the Lottery and Games Fund and General Fund financial statements as of September 30, 2013. We determined the balance should be presented as cash in the Lottery and Games Fund, and thus the General Fund cash was overstated by $2,126,485; and

  - For 1 of 26 reconciliations tested, we noted an unsupported reconciling item for approximately $20 million. Upon discussion with the District's Office of Financial Operations and Systems (OFOS), we noted the respective Bank ID encompasses 2 bank accounts, and the resolution of the majority of this reconciling item was to add the balance of the second bank account to the Bank ID. However, the resolution of this significant reconciling item was not identified until the issue was raised as a part of our audit. We inspected the bank statement provided, and noted a remaining understatement of $75,920.

- Controls in place to ensure proper and timely authorization of closures of bank accounts were not fully effective during FY 2013. Specifically, we noted the following:

  - For 1 of 8 approved bank account closure forms tested, the bank account had been appropriately approved for closure during the fiscal year by Office of Finance and Treasury (OFT) management; however the Bank ID had a remaining balance in the general ledger of $396,700 as of September 30, 2013. We determined the error results in an overstatement of the cash balance;

  - For 13 of 402 bank accounts tested, the bank account was deemed to be closed per the financial institution; however the status of the respective Bank ID per the OFT Listing of BIDs was inaccurately noted as "Active" or "Open". We noted the reported balance for these BIDs was $0 per the general ledger. Therefore, there is no financial statement impact; and

  - For 1 of 402 bank accounts tested, the bank account was deemed to be open per the financial institution; however the status of the respective Bank ID per the OFT Listing of BIDs was inaccurately noted as "Closed". We noted the reported balance for the BID agreed to the confirmed balance per the financial institution. Therefore, there is no financial statement impact.

- Controls over monthly cash and investment account reconciliations were not fully effective during FY 2013. Specifically, we noted the following:

  - For 1 of 44 interim reconciliations tested, the reconciliation was not prepared and reviewed and approved within 60 days subsequent to the month-end; and

  - For 18 of 44 interim reconciliations tested, the reconciliations included reconciling items aged greater than 60 days from the date of the reconciliation. We inspected the respective September 2013 reconciliation, and determined that for 2 of the 18 accounts, all aged reconciling items were not removed by year-end. Further, 15 of 38 additional September 2013 reconciliations tested included reconciling items aged greater than 60 days from the date of the reconciliation. We determined all reconciling items were valid transactions, and thus there is no financial statement impact resulting from the control deficiency.

- We noted that the District's suspense account, BID 999 contained outstanding balances amounting to approximately $35 million as of September 30, 2013 that were not cleared by January 10, 2014 (100 days past the fiscal year-end). We noted the balance was comprised partially of intra-District transactions, along with offsetting adjustments to cash and investment balances.

- During our FY 2013 testwork over Bank ID (BID) 998, we noted that the account included a surety bond with a value of approximately $6.2 million held in Fund 600 – Miscellaneous Agency Funds. This bond should not be reflected on the District's financial statements because it is not an asset or liability of the District. This error has not been corrected in the financial statements.

Criteria:

Yellow Book, Appendix I, section A1.08 d., states that management at a State and Local government entity is responsible for "*establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.*"

Per the COSO Internal Control Integrated Framework:

Internal Control is broadly defined as a process, affected by an entity's board of directors, management, or other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and Efficiency of Operations
2. Reliability of Financial Reporting
3. Compliance with Applicable Laws and Regulations

The COSO Internal Control Framework also identifies the five components of internal control, which include Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. With regard to Control Activities and Monitoring, the COSO Internal Control Framework states:

Control Activities – Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achieve the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Monitoring – Internal control systems need to be monitored—a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

Per ASC 305-10-20, *"cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty."*

Cause/Effect:

- District Agencies are not timely investigating and resolving reconciling items. Additionally, OFOS appears to lack sufficient authority to enforce controls that are in place to ensure that material reconciling items are resolved prior to the issuance of the District's financial statements. As a result, the balances of Cash and Investments reported in the District's Governmental Funds were misstated as follows at September 30, 2013:

Financial Statement Line Item	General Fund	Federal & Private Resources	Housing Production Trust Fund	Capital Projects General Fund	Non-Major Governmental Funds	Total (Overstated)
Unrestricted Cash	$(4,955,102)	$ -	$ -	$ -	$ -	$(4,955,102)
Restricted Cash	828,326	128,159	143,153	343,874	(14,648,183)	(13,204,671)
Restricted Investments	(546,320)	-	(13,747)	-	(71,426)	(631,493)
Total	**$(4,673,096)**	**$128,159**	**$129,406**	**$343,874**	**$(14,719,609)**	**$(18,791,266)**

However, we noted the District subsequently recorded a correcting entry to reduce the balance of Restricted Cash reported in Non-Major Governmental Funds by $14,967,588 as of September 30, 2013. As such, the net impact of the uncorrected misstatements to the Governmental Funds resulted in an overstatement of $3,823,678.

- The District lacks policies/procedures that address timely reporting of closed bank accounts by Agencies. Thus, agencies are not performing periodic reviews to timely identify and report closures of bank accounts to the Office of Finance & Treasury. Untimely notification regarding the closure of bank accounts, and/or inadequate monitoring of the bank accounts' status per the general ledger, could lead to misstatements of cash balances recorded in the financial statements and could increase the District's exposure to fraudulent bank account activity.

- The District does not have policies and procedures in place to ensure reconciling items and other adjustments to properly report cash/investments are recorded to the appropriate BID, and that the balance of the suspense account is $0 at fiscal year-end. Inadequate or untimely resolution of reconciling items between the bank and the general ledger could lead to misstatements of cash balances recorded in the financial statements and could increase the District's exposure to fraudulent bank account activity.

- The failure to resolve suspense account balances in a timely manner prevents the District from being able to properly reconcile the District's accounts by BID, which could result in misstatements in cash and investment balances at fiscal year end.

- The District's controls over BID 998 were not operating effectively to prevent or detect and correct the improper recording of the surety bond as an asset in the District's financial statements as of September 30, 2013. As a result, the balance of Restricted Investments was overstated by $6.2 million in the District's Agency Funds as of September 30, 2013.

Recommendations:

We recommend that the District:

- Improve its controls to ensure that all reconciling items are investigated and resolved within a 60- day time period, including making the required journal entries to correctly state the general ledger cash and investment balances.

- Establish controls to ensure that all significant reconciling items are investigated and resolved immediately upon identification to ensure the District's financial statements are not materially misstated at fiscal year end.

- Continue to perform monthly reconciliations on closed cash accounts until the general ledger account balance is zero and the account is closed in the general ledger.

- Remove all closed bank accounts from the general ledger within a reasonable time period to prevent personnel from erroneously posting journal entries to old accounts.

- Investigate cash and investment balances in BID 999, and reclassify balances to the appropriate BID.

- Improve controls over BID 998 to ensure that all items meet the criteria to be included in cash and investments at fiscal year end.

- Review all BIDs to determine if all are necessary or any can be combined or eliminated.

Management Response:

Office of Financial Operations and Systems (OFOS) Response:
Management concurs that some reconciling entries were not recorded within 60 days after month-end. During FY 2013, OFOS developed and implemented a new policy that requires an agency to resolve reconciling items within 60 days of first appearing on a reconciliation. We will work diligently to enforce this new policy, including the use of a Red Alert process whereby information regarding unresolved reconciling items will be forwarded to the District's Chief Financial Officer, to ensure that significant reconciling items are given top priority. Further, we concur that the suspense account had a remaining balance as of September 30, 2013. We will investigate cash and investment balances in BID 999 and reclassify balances as appropriate.

Office of Finance and Treasury (OFT) Response:
Management concurs that the status for several bank accounts per the OFT listing was inaccurate and did not agree to the confirmed responses. OFT is developing additional controls designed to prevent such errors which resulted from a manual process. We also agree with the finding that a surety bond was improperly included in BID 998. OFT researched the issue and has reversed the incorrect entries related to BID 998 in reference to the surety bonds. Surety bonds are instruments issued by companies as "insurance" when the respective company is involved in a construction project in the District of Columbia that may result in damage to city property. As noted, we agree that such bonds should not be recorded in the general ledger.

Response – OCFO Agency Financial Operations (Office of Management and Administration and the Economic Development and Regulation Cluster):
We concur that two similar entries totaling $14.97 million were recorded in an account that incorrectly stated revenue and cash due to a lack of clarity regarding the Guaranteed Interest Contracts (GICs) that were introduced in FY 2013. The respective program areas involved have agreed to work together to prevent similar misstatements in the future. We also concur that there was an unsupported reconciling item for approximately $20 million. The agency will review the monthly reconciliations, research, and resolve outstanding reconciling items within a reasonable period of time.

Finding 2013-03 – Weaknesses in the District's Financial Reporting for Capital Assets

Condition:

As noted during our FY 2012 financial statement audit, during FY 2013, the District did not have uniform, District-wide policies and procedures, applied consistently across District agencies, for the identification of completed projects to ensure that projects are transferred from Construction-in-Progress (CIP) to fixed assets in the period in which the assets are placed in operation. We also noted that the methods being used by agencies to account for CIP continued to vary widely throughout the District, which resulted in a highly decentralized and inconsistently applied capital assets financial reporting process in FY 2013. Additionally, agencies' ad-hoc record keeping systems are only reconciled to the District's Fixed Assets System (FAS) and general ledger, System of Accounting and Reporting (SOAR), at fiscal year end. As such, the District was not able to verify the completeness and accuracy of capital asset transactions throughout FY 2013, and capital asset transactions were not recorded in FAS and SOAR on a timely basis. Further, summary schedules used by the Office of Financial Operations and Systems (OFOS) to accumulate and summarize agency reported CIP data for financial reporting are not completed timely in order to facilitate a sufficient, detailed review of the activity to detect and correct data entry errors. We noted that the process followed in FY 2013 was a highly manual process, and without proper oversight and controls over agency reporting, and OFOS' ultimate reporting in FAS and SOAR, it is susceptible to errors and inconsistencies in financial reporting in the government-wide financial statements.

As a result of these deficiencies, during our testwork over a sample of 25 projects totaling $518.6 million transferred to depreciable assets from CIP during FY 2013, and 25 projects totaling $151.3 million remaining in the CIP as of September 30, 2013, we identified the following errors in the capital asset balances:

- Office of the Deputy Mayor for Planning and Economic Development (EB0) – 1 instance in which costs totaling $13.2 million were reclassified from depreciable fixed assets to expense subsequent to the project being sampled as a part of our audit; and another instance where $300,000 was incorrectly transferred to depreciable capital assets in FY 2013 for a project that was not placed in service until FY 2014. Additionally, we noted 1 instance in which sufficient documentation to support $5.4 million of costs related to a project in ending CIP was not timely provided in order to validate the District's ownership of the asset.

- Fire and Emergency Medical Services (FB0) – 2 instances in which costs totaling $6.9 million were incorrectly transferred to depreciable capital assets in FY 2013 but the projects were not complete and placed in service as of fiscal year end; 1 instance in which costs totaling $5 million were transferred to depreciable capital assets as of September 30, 2013 but the project was complete in a prior fiscal year; and 2 instances in which sufficient documentation to support the ending CIP balance for selected projects, totaling $10.6 million, was not provided.

- Metropolitan Police Department (Department of General Services (FA0-AM0)) – 1 instance in which documentation to support evidence of project completion was not available for $537,000 of costs that were transferred to depreciable capital assets in FY 2013.

- District of Columbia Public Schools (Department of General Services) (GA0-AM0)) – 1 instance in which the capitalized costs for a completed project were overstated by $101,000 as a result of incorrect allocation of current year costs between capital and noncapital costs.

- Department of Human Services (JA0) – Sufficient documentation, by project, was not provided to support $3.1 million of the ending balance in CIP.

Furthermore, we noted that based on our prior year recommendation, during FY 2013, the District of Columbia Public Schools performed a new analysis over $175 million of capital project costs that were transferred to depreciable capital assets in FY 2012 and determined that approximately $35 million related to costs that were incorrectly capitalized in prior years. As a result of their analysis, an adjustment was recorded to correct the depreciable capital asset balance in FY 2013. Although the error was appropriately corrected, the correction was made in a subsequent fiscal year.

We also noted OFOS is not updating the District's Fixed Asset System (FAS) on a timely basis. Specifically, during testwork over a sample of 23 FY 2012 additions to depreciable capital assets, we noted that all were not entered in FAS until after September 30, 2013. Also, for 2 of 23 assets, the in-service date was not correctly entered to reflect the proper fiscal year in which the asset was placed in service. Additionally, prior year depreciable capital assets entered into FAS were not reconciled to the FY 2012 ending balances in SOAR and the financial statements until after the end of FY 2013.

We also noted that the District does not record a liability for contract retainages withheld from contract payments in the District's governmental activities statement of net position in accordance with U.S. generally accepted accounting principles. This resulted in an understatement of CIP and accrued liabilities in the District's Government-wide financial statements for governmental activities as of September 30, 2013.

We also noted that on September 16, 2013, OFOS issued new guidance in Section 10302003, *Construction In Progress Closeout Process* to its Financial Policies and Procedures to address the deficiencies noted in our FY 2012 findings and recommendations which are being implemented in FY 2014. However, the design and operating effectiveness of these new policies and procedures and related controls were not tested as a part of our FY 2013 audit.

Criteria:

GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, recognizes the basic characteristics of financial reporting objectives as understandability, reliability, relevance, timeliness, consistency, and comparability. While GASB does not identify specific control standards, state and local governments follow internal control guidance to meet those objectives. Two of the major sources of guidance for state and local governmental units on auditing and reporting on internal control are the Single Audit Act and Government Auditing Standards (GAS), also known as generally accepted government auditing standards (GAGAS), and popularly known as the Yellow Book. These standards are produced by the U.S. Government Accountability Office. GAO's Standards for Internal Control states that for an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout an agency to achieve all of its objectives. These standard control activities help to ensure that all transactions are completely and accurately recorded.

GASB Statement No. 34 - *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments:* According to Governmental Accounting Standards Board (GASB) Statement No. 34, paragraph 19, capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. In compliance with GASB No. 34, governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities.

GASB Concepts Statement No. 4, paragraphs 17 and 18, states:

Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid. An obligation is a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action. A present obligation that is a liability is a duty or responsibility to sacrifice resources that the government has little or no discretion to avoid. The reason that many liabilities cannot be avoided is that they are legally enforceable, meaning that a court could compel the government to fulfill the obligation. Generally, legally enforceable liabilities arise from legislation of other levels of government or contractual relationships, which may be written or oral.

Cause/Effect:

The District has not fully implemented sufficient policies and procedures to ensure costs transferred from CIP are tracked on a project level and that the amounts transferred to depreciable fixed assets are properly supported. Furthermore, the District lacks proper oversight over the capital asset financial reporting process to ensure complete, accurate, and timely recording of capital assets in the general ledger and FAS.

Without effectively designed and implemented internal controls over the financial reporting process for capital assets, misstatements in capital asset balances may not be prevented or detected in a timely manner. We noted misstatements in the non-depreciable and depreciable capital asset balances reported in the District's FY 2013 government-wide financial statements as follows (in millions):

	Overstatements	Understatements	Net misstatement
Depreciable Capital Assets	$ 21.0	$ -	$ 21.0
Non-Depreciable CIP	19.1	(7.7)	11.4

We noted that $13.7 million of the overstatements to Depreciable Capital Assets and Non-Depreciable CIP identified above were the result of the District being unable to provide appropriate supporting documentation at the time of our audit.

Additionally, the District has not implemented an entity-wide accounting policy to record a liability for contract retainages in the period in which the goods and services are received in the Government-wide financial statements for governmental activities in accordance with GAAP. This has resulted in the District's governmental activities accrued liabilities and capital assets (CIP) being understated by an estimated $41 million in the Government-wide Statement of Net Position as of September 30, 2013.

Recommendations:

We recommend that the District strengthen its internal controls over the financial reporting process for capital assets to ensure that capital asset balances are complete and accurate as of the fiscal year end. This should include, but not be limited to the following:

- Implementing the recently established District-wide policies and procedures for identifying completed capital projects to ensure that projects are transferred from CIP to depreciable capital assets in the period in which the assets are placed in service.
- Implementing the recently established District-wide policies and procedures for identifying capital project expenditures that are non-capital in nature and ensuring such expenditures are expensed in the period incurred.
- Continuing to provide training to District agencies regarding the recently established policies and procedures for determining proper classification of capital expenditures and timely transfer of completed projects to depreciable capital assets to reinforce that such procedures are uniformly applied across the District.
- Adding prior year real property additions to FAS and reconciling agency capital asset activity to the prior year CAFR before fiscal year-end, as planned in the recently established guidance.
- Adhering to existing internal control procedures for the review and approval of agency-reported closing package information to ensure that the closing packages are submitted timely and that the reported capital asset data is complete and accurate.

- Maintaining appropriate supporting documentation for all capital expenditures, transfers from CIP to depreciable capital assets, and real and personal property additions and disposals.

- Reinforcing policies and procedures that require management review of entries to record real property assets in FAS, and make corrections as necessary.

- Performing reconciliations of real property balances in SOAR and FAS timely during the fiscal year, rather than after the end of the fiscal year.

We also continue to strongly encourage the District to implement a project cost accounting system that is fully integrated with the District's general ledger that allows capital asset transactions to be tracked at an invoice and project level.

Additionally, we recommend that the District develop policies and procedures to track contract retainages for all construction contracts and to record a liability for such amounts at fiscal year-end in the governmental activities Government-wide Statement of Net Position.

Management Response:

Management concurs with the finding. Management will further strengthen internal controls related to the identification of completed projects and their timely transfer to depreciable assets. We will also continue to provide training to District agencies regarding established policies and procedures for determining proper classification of capital expenditures. Management will ensure that the District's Fixed Asset System (FAS) is updated for and reconciled to the Comprehensive Annual Financial Report (CAFR) entries in a timely fashion.

Management also concurs with the retainage piece of the finding. Retainage of somewhere between 5 and 10% is withheld on most of the DGS General Contractor (GC) payments, and sometimes other contractor payments as well. As the agency program management team certifies that certain work is performed during the period represented by the pay application, the full value of such work is not paid, but a percentage is retained, which will be released toward the end of the project. Retainage amounts are part of an overall final negotiation once the project is complete to determine a final payment amount.

At the present time there is no mechanism either within the District's financial management system (SOAR) or the District's procurement system (PASS) to track and record contract retainage liability at the time a voucher is released for payment, due to lack of flexibility in the system to apply varied retainage percentages to the trade line items within the pay application. DGS will collaborate with OFOS as they develop District-wide policies and procedures to track and record retainage for all construction projects.

Finding 2013-04 – Weaknesses in the District's Procurement and Disbursement Controls and Non-compliance with Laws and Regulations

Conditions:

During our FY 2013 testwork, we noted that in order to be as efficient and effective as possible, the District has established District-wide policies and procedures to procure good and services and to make payments for those goods and services at the Office of Contracts and Procurement (OCP), as well as at those agencies that have independent procurement authority. Further, these policies and procedures serve to ensure the District's compliance with various laws and regulations governing procurement and payments, such as the Procurement Practices Act and the Quick Payment Act.

OCP has implemented a comprehensive, multi-year remediation plan to address previously identified deficiencies and has completed the steps scheduled for FY 2013. While these remediation efforts resulted in improvements within the Procurement process, we still noted deficiencies that continue to be repeated from previous years during FY 2013. Specifically, we noted the following:

For a sample of competitive procurements we noted:

- For 1 of 40 competitive procurements, evidence of the contracting officer delegation of authority to enter into the contract was not provided for review.
- For 11 of 40 competitive procurements, evidence that the procurement was awarded through the competitive sealed bidding process was not available for review.
- For 6 of 40 competitive procurements, evidence of the excluded party list was not available for review.
- For 3 of the 40 competitive procurements, evidence of the contractor compliance with the District tax code was not available for review.
- For 2 of the 40 competitive procurements, the contract/agreement was not available for review.
- For 3 of 40 competitive procurements, the determination and findings was not provided.
- For 1 of 40 competitive procurements, the contracting officer warrant was not provided to validate the officer's authorizing power.

For a sample of sole source procurements we noted:

- For 2 of 42 sole source procurements, evidence of the contracting officer delegation of authority to enter into the contract was not provided for review.
- For 2 of 42 sole source procurements, evidence of the excluded party list was not available for review.
- For 1 of 42 sole source procurements, the contract/agreement was not available for review.
- For 6 of 42 sole source procurements, the sole source procurement method was not justified.
- For 2 of 42 sole source procurements, the procurement was incorrectly recorded in the District's Procurement System (PASS) as sole source procurements but were actually competitive bidding

procurements. We did however note that the transaction was properly procured through the competitive bidding process.

For a sample of emergency procurements we noted:

- For 1 of 8 emergency procurements, the determination and findings was not provided.
- For 3 of 8 emergency procurements, there was not sufficient documentation to validate the emergency procurement method was justified.
- For 3 of 8 emergency procurements, the period of performance exceeded the 90-day maximum duration requirement for an emergency procurement.
- For 2 of the 8 emergency procurements, the procurement was incorrectly classified in the District's Procurement System (PASS) as an emergency procurement but was actually a small purchase procurement

During our testing over the District's Independent Agency's procurement transactions, we noted the following:

For a sample of competitive procurements we noted:

- For the Department of General Services, for 2 of the 39 samples, evidence of the contracting officer delegation of authority to enter into a contract was not provided;
- For 3 of the 39 samples, evidence that the procurement was awarded through the competitive bidding process was not provided; 1 exception related to the DC National Guard, 1 exception related to the Department of General Services, and 1 exception related to the Inaugural expense;
- For 3 of the 39 samples, evidence of the search performed to ensure that the vendor was not included on the excluded party list prior to the execution of the contract was not provided; 2 exceptions related to the Council of the District of Columbia, and 1exception related to the DC National Guard;
- For 5 of the 39 samples, evidence of contractor compliance with the District tax code was not provided; 2 exceptions related to the Department of General Services, 1 exception related to the DC National Guard, and 2 exceptions related to the Council of the District of Columbia;
- For 2 of the 39 samples, the respective contract was not provided; 1 exception related to the Department of General Services and 1 exception related to the DC National Guard; and
- For the DC National Guard, for 1 of the 39 samples, the determination and finding was not provided.

For a sample of sole source procurements we noted:

- For 1 of 40 sole source procurements, there was no delegation of authority available for review. This exception related to the Department of General Services.
- For 1 of 40 sole source procurements, evidence of compliance with the District's tax code was not available for review. This exception related to the Office of the Chief Financial Officer.
- For 1 of 40 sole source procurements, evidence of the excluded party list was not available for review. This exception related to the Office of the Chief Financial Officer.

During our testing of procurement and disbursement transactions at the District of Columbia Public Schools, (DCPS), we noted the following:

- For 1 of 27 contracts tested, the contract was not approved by the Council before it was executed.

In our testing of compliance with the District of Columbia Quick Payment Act, we noted:

- For 16 of 90 District (non-DCPS) transactions selected for testing, payment was not made timely in accordance with the Quick Payment Act.
- For 3 of 40 DCPS transactions selected for testing, payment was not made timely in accordance with the Quick Payment Act.

During our testwork over purchase card (P-card) transactions, we noted the untimely review of monthly P-card reconciliations between the cardholder transaction statement, receipts and PaymentNet, and the lack of proper authorization for P-card transactions. Specifically, we noted the following:

- The reconciliation for the month of December 2012 was not reviewed and approved by the approving official until August 2013.
- We selected 40 P-card transactions totaling $165,041 and determined:
    - For 2 of the 40 P-card transactions totaling $8,000, the single purchases appear to be "split" into multiple transactions in order to circumvent the authorized P-card limit. One exception relates to Department on Disability Services (DDS) and 1 exception relates to Fire and Emergency Medical Services (FEMS).
    - For 3 of the 40 P-card transactions totaling $13,479, we noted the authorizer approved purchases exceeding the cardholders' daily authorized P-card limit. One exception relates to Department of Small Local Business Development (DSLBD), 1 relates to Office of the Secretary (OS) and 1 relates to the Board of Elections (BOE).

- For 3 of the 40 P-card transactions totaling $11,000, we noted the authorizer approved purchases exceeding the cardholders' single and daily authorized P-card limit. Two exceptions relate to the Fire and Emergency Medical Services (FEMS) and 1 exception relates to the Council of the District of Columbia.

Criteria:

The Procurement Practices Act indicates the following:

Pursuant to **Section 451 of the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 803; D.C. Official Code § 1-204.51)**, "*prior to the award of a multiyear contract or a contract in excess of $1 million during a 12-month period, the Mayor or executive independent agency or instrumentality shall submit the proposed contract to the Council for review and approval in accordance with the criteria established in this section…*".

According to the **Procurement Practices Reform Act of 2010, Section 402**, "*Contracts exceeding $100,000 shall be awarded by competitive sealed bidding unless the CPO issues a determination and finding that use of competitive sealed bidding is not practicable or not in the best interest of the District*".

In addition, according to the respective sections of Title 27 of the District of Columbia Municipal Regulations (DCMR):

DC 27 DCMR 1002.4, "*each delegation of contracting authority by an agency head to an official under his or her administrative control shall be in writing and shall include clear instructions on the limitations of the contracting authority being delegated*".

DC 27 DCMR, 1202.2 "*The documentation in each contract file maintained by the contract office shall be sufficient to constitute a complete history of the transaction for the following purposes:*

a) Providing a complete background as a basis for informed decisions at each step of the procurement process;
(b) Supporting actions taken;
(c) Providing information for reviews and investigations; and
(d) Furnishing essential facts in the event of litigation".

27 DCMR 1003.2 "*a contracting officer shall make all determinations and findings required by the Act or this title to be made by the contracting officer for each solicitation or contract for which he or she is responsible*".

27 DCMR chapter 17, states that: **"***In each instance where the sole source procurement procedures are used, the contracting officer shall prepare a written determination and findings ("D&F") justifying the procurement which specifically demonstrates that procurement by competitive sealed bids or competitive sealed proposals is not required."*

27 DCMR chapter 17, states that: ***"****Each sole source D&F for a procurement in an amount greater than twenty-five thousand dollars ($25,000) shall be reviewed by the Director before solicitation and shall be approved by the Director before contract execution."*

DC Code 1-204.51, states that: "*prior to the award of a multiyear contract or a contract in excess of $1,000,000 during a 12-month period, the Mayor or executive independent agency or instrumentality shall submit the proposed contract to the Council for review and approval.*"

27 DCMR chapter 17 states that "*An "emergency condition" is a situation (such as a flood, epidemic, riot, equipment failure, or other reason set forth in a proclamation issued by the Mayor) which creates an immediate threat to the public health, welfare, or safety. The emergency procurement of services shall be limited to a period of not more than one hundred twenty (120) days. If a long-term requirement for the supplies, services, or construction is anticipated, the contracting officer shall initiate a separate non-emergency procurement action at the same time that the emergency procurement is made. The contracting officer shall attempt to solicit offers or proposals from as many potential contractors as possible under the emergency condition. An emergency procurement shall not be made on a sole source basis unless the emergency D&F includes justification for the sole source procurement. When an emergency procurement is proposed, the contracting officer shall prepare a written determination and findings (D&F) that sets forth the justification for the emergency procurement."*

The District's **Quick Payment Act** indicates the following: *If a contract specifies the date on which payment is due, the required payment date is the date specified in the contract. If a contract does not specify a payment date, the required payment date will be one of the following:*

(a) Meat and meat food products **-** *the seventh (7th) day after the date of delivery of the meat or meat product;*
(b) Perishable agricultural commodities - the tenth (10th) day after the date of delivery of the perishable agricultural commodity; or
(c) All other goods and services **-** *the thirtieth (30th) day after the receipt of a proper invoice by the designated payment officer.*

According to the District **Purchase Card** program policies and procedures:

- **Purchase limit:** An individual who is issued a P-Card under the DC Purchase Card Program shall use the purchase card to buy commercially available goods and services, for *Official Government Business only*, with a value that does not exceed $2,500 per single transaction and a total amount of $2,500 per card per day and $10,000 per card account per monthly cycle, **unless otherwise specified by the Chief Procurement Officer in the delegation of contracting authority.**

- **Reconciliation:** Each approving official will have a queue of all P-card statements waiting for them in the PaymentNet system. By the 27th of each month, the Approving Official should obtain original receipts from cardholders under their jurisdiction and ensures that the cardholders have reviewed all transactions in PaymentNet. The Approving Official should review each

> transaction to verify that the good or service were received, that the nature of the purchase was within programmatic guidelines, and that the receipts match the amount listed in PaymentNet. The Approving Official should mark each transaction as Approved in PaymentNet **by the 3rd day of the subsequent month.**

According to **DC Code 1-204.51**, "*prior to the award of a multiyear contract or a contract in excess of $1,000,000 during a 12-month period, the Mayor or executive independent agency or instrumentality shall submit the proposed contract to the Council for review and approval.*"

Also, **DC Code 2-301.05(G)** states that "*All contracts over a million dollars must go to the Office of the Attorney General (OAG) for a legal sufficiency review*."

27 DCMR chapter 15
1511.3 Prospective bidders that have been debarred or suspended from District contracts or otherwise determined to be ineligible to receive awards shall be removed from solicitation mailing lists to the extent required by the debarment, suspension, or other determination of ineligibility

The requirements for allowable costs/cost principles are contained in the A-102 Common Rule (§___.22), OMB Circular A-110 (2 CFR section 215.27), OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" (2 CFR part 225), program legislation, Federal awarding agency regulations, and the terms and conditions of the grant award. Management is required to maintain adequate internal controls to prevent and detect instances of noncompliance.

Cause/Effect:

District agencies are not adhering to the established policies and procedures governing creation and maintenance of procurement documentation and the payment of vendor obligations, which may cause noncompliance with the Procurement Practices Act and the Quick Payment Act. Additionally, internal controls need to be improved to ensure compliance with all procurement laws and regulations.

Recommendation:

We recommend that the District continue to strengthen its internal controls over procurement through the implementation of its deficiency remediation plan. These implementation efforts should continue to be led by the OCP Procurement Integrity and Compliance Office (PICO), and sufficient resources should be provided to this office to ensure it can successfully implement the remediation plan. The performance measurement statistics monitored by PICO should be provided to both the Mayor and the Chief Financial Officer at least semi-annually so that senior District management is apprised of progress on the remediation plan.

Management Response:

Management partially does not concur with this finding. For certain exceptions noted, while required documentation was not maintained in the file there were other items that would indicate that those steps were performed prior to the execution of the procurement. In addition for those which were cited as being improperly classified, this was a human error and the procurement was correctly procured through the correct process and we do not believe this warrants an audit finding. While we recognize and accept that OCP has recorded some deficiencies as pertaining to the CAFR audit, we have made progress in remediating past deficiencies. OCP continues to expand and focus its internal audit program to better-mirror the CAFR and Single Audit criteria. During FY2014 PICO will return to full strength, adding two more analysts/auditors to back fill vacancies. OCP's commitment to a robust, independent and well-managed internal audit program demonstrates its management's commitment to continuous improvement with regard to its compliance with applicable laws. Going forward, during FY2014, as part of the procurement reform budget enhancements, OCP will be adding fifteen procurement staff. When combined with new and improved training initiatives, the application of new and improved technologies, and the recent appointment of a new Assistant Director of Procurement, OCP is confident that it will continue to improve in the years ahead.

KPMG's Response:

We have reviewed management's response and our finding remains as indicated.